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Julie N. Zimmerman  
*University of Kentucky*

Lorraine Garkovich  
*University of Kentucky*

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**THE CHALLENGE OF WELFARE REFORM:  
EARNINGS AND THE COST OF LIVING  
IN RURAL KENTUCKY**

**By Julie N. Zimmerman and Lorraine Garkovich<sup>1</sup>**

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**ABSTRACT**

The passage in 1996 of the Personal Responsibility and Work Opportunities Act may well mark the single most consequential social legislation of this decade, especially for rural southern families, for it marked a fundamental shift in the welfare system in the U.S. No longer focused on hardship relief, cash assistance now has a work-first focus, with mandatory work requirements and lifetime limits for recipients. Underlying this legislation have been four assumptions about the nature of the labor market and welfare recipients' characteristics and opportunities. This article examines the utility of these assumptions, especially in the context of the regional and spatial inequalities that pose serious challenges for southern rural welfare recipients in making the transition from welfare to work. Particular attention is given to determining the level of earnings that would be required by an employed single mother with two children to be able to live independently of any further assistance. The implications of this analysis for welfare recipients, especially those in the rural South, are considered.

**INTRODUCTION**

Welfare reform has been built on four assumptions about the nature of the labor market that have strongly influenced the expectations for employment and economic independence on the part of recipients. The most critical assumption is the belief that if a person is employed, he or she will earn enough to be financially independent. However, this

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<sup>1</sup> Julie N. Zimmerman is an Assistant Professor and Lorraine Garkovich is a Professor in the Department of Sociology at the University of Kentucky. This article is Kentucky Agricultural Experiment Station Number 99-13-13.

assumption is valid only if the local labor market provides job opportunities with wages sufficient to meet monthly costs of living. In other words, whether it is possible for families to live independently of assistance depends on what it costs for them to pay their monthly bills and the extent to which their earnings meet these costs. Hence, determining whether this key assumption underlying welfare reform is realistic requires knowledge of a family's minimum monthly costs of living, for this minimum will determine what must be earned in wages and salaries to achieve independence from public assistance. This level of earnings has been called a livable wage. The focus of recent research on the monthly cost of living and employment prospects of *rural* welfare recipients is due to the structurally-based spatial inequalities between rural and urban places, which intensify the challenges facing rural welfare recipients.

This article assesses the reality behind the assumptions underlying welfare reform with a particular focus on whether the jobs available to rural welfare recipients will allow them to earn enough to live independently of public assistance. To answer this question, a method for estimating the monthly cost of living for an employed single mother, 22 years of age, with two children, ages 4 and 6 years old, who live in rural Kentucky, is used to establish the basis for a livable wage. The results are compared with the minimum wage and the current poverty threshold for a family of three to provide a context for assessing the prospects of rural welfare recipients, especially single mothers, of finding employment at a living wage. A single mother with two children is the focus of this discussion, because this family type represents the majority of cash assistance households.

## **THE ASSUMPTIONS UNDERLYING WELFARE REFORM**

In 1996, the Personal Responsibility and Work Opportunities Act legislation was enacted, instituting a fundamental shift in the welfare system in the U.S. No longer focused on hardship alleviation, cash assistance now has a work-first focus with mandatory work requirements and lifetime limits for recipients. Underlying this new focus are four interrelated assumptions about the nature of the labor market and welfare recipients' position therein. These assumption are the following:

1. All adult welfare recipients either have the skills and experience to enter the labor force or they can gain these within the time allowed for training;
2. There are enough jobs to absorb the influx of welfare recipients or, if enough jobs are not currently available, they will be created by a growing economy within the 60-month lifetime limit for recipients;
3. The jobs available to welfare recipients will pay enough for them to no longer need any further public assistance;
4. Shortfalls between wages and the costs of living can be absorbed by private and voluntary sources within communities.

Welfare discussions and debates have found these assumptions to be generally problematic in regards to urban areas, but rural areas will face even greater challenges. The high number of persistent poverty counties in the rural South makes these assumptions particularly problematic for this region.

*Assumption 1. All adult welfare recipients either have the skills and experience to enter the labor force or they can gain these within the time allowed for training.*

Compared to urban areas, rural residents bring fewer educational resources to the labor market. Overall, educational levels across rural areas tend to be lower than those found in urban areas. For example, according to the 1997 Current Population Survey, 17.4 percent of those 18 years or older who lived in metro areas did not graduate from high school, compared to 23.5 percent of those in nonmetro areas (Census Bureau, 1998b: Table 10). In 1996, over one third (35 percent) of rural welfare recipients who were parents did not have a high school diploma (Cook & Dagata, 1997, p. 45).

Educational inequalities are further pronounced in the South. According to the 1997 Current Population Survey, the southern region has the highest proportion of population ages 18 and over who are not high school graduates, 21.2 percent (Census Bureau, 1998b: Table 11). This

proportion increases even further for the rural South. The nonmetro South has the highest proportion of population ages 18 and over who are not at least high school graduates, 29.2 percent, compared to the other three regions (Northeast: 17.7%; Midwest: 18.9%; West: 19.9%).

Despite these inequalities in work readiness, welfare reform does not encourage recipients to invest in anything more than short-term training. Beyond the one year allowed for training, recipients are then held to the work participation requirements.<sup>2</sup> Yet, the economic benefits of continued education are unequivocal. In 1997, a worker with only a high school degree earned nearly \$7,000 more than one without a high school degree (\$22,895 compared to \$16,124). A college graduate earned nearly \$18,000 more than a high school graduate (\$40,478 compared to \$22,895) (Census Bureau, 1998a). Further, the income returns for education are increasing with time. For example, while 1992 high school graduates earned 2.5 times more than their 1975 counterparts, 1992 college graduates earned three times more than their 1975 counterparts (Census Bureau, 1994).

The difference between earnings by educational level is further pronounced when gender is considered. For example, according to the Current Population Survey, in 1997, median earnings for males ages 18 years and over was \$26,397, while the median earnings for females was \$16,534, nearly a \$10,000 difference (Census Bureau, 1998b: Table 9). For those who were not high school graduates, the median earnings for males was \$14,121, compared to \$8,305 for females. This gap widens for high school graduates. Here, the median income for males was \$24,045, compared to \$14,044 for females.

Poverty rates by educational level provide a different way of looking at this issue. Clearly, poverty rates are higher at lower educational levels. Yet, using the March 1997 Current Population Survey, Mortenson (1998) found that while poverty rates varied inversely with educational levels, differences exist within each category by race and by region. For example, across the four educational categories used to

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<sup>2</sup> Twenty-four states either allow recipients who were enrolled in college when welfare reform was passed to continue completing their degree or allow two years of post-secondary education in programs that are clearly linked to jobs.

categorize those with a high school degree or less, poverty rates in the South were in general the highest in all the regions.

Given these characteristics, the employment prospects for many rural recipients are limited. Moreover, the limited opportunities for training or education in the welfare reform legislation almost inevitably confine them to low- or minimum-wage jobs. Finally, the uncertain employment prospects raise the question of rural/urban equity under the legislation and its mandated requirements. In other words, given the differences in work readiness between rural and urban welfare recipients, do the work requirements unfairly penalize rural adult recipients, who often must travel considerable distances in order to attend classes and then travel considerable distances to meet their work mandates?

*Assumption 2. There are enough jobs to absorb the influx of welfare recipients or, if enough jobs are not currently available, they will be created by a growing economy within the 60-month lifetime limit for recipients.*

Nationally, unemployment rates are at or near the lowest levels in years. In many urban areas, want ads are extensive and employers desperately search for workers. Unfortunately, the same cannot be said for many rural communities. Low state unemployment levels mask tremendous differences among places. While more similar than in the past, from 1995-1996, employment in all metro areas grew by 1.7 percent, whereas in nonmetro areas, employment grew by only 0.9 percent (Kusmin, 1997, p. 9).

This discrepancy is particularly the case for the South. In 1995, this region was home to most of the rural poor in the nation (53.6 percent) and had the highest rural poverty rate of any of the four regions (19.2 percent) (Nord, 1997a, p. 34). From 1995-1996, both the highest and the lowest regional employment growth was located in the southern region. Employment in metro areas in the southern region grew by 1.9 percent, whereas in nonmetro areas of the region employment grew by only 0.7 percent (Kusmin, 1997, Appendix Table 1). Reflecting the "spatial mismatch" between the location of jobs and the location of those on assistance, the South is also home to 52 percent of the nonmetro counties nationwide having both high unemployment rates and high dependence on Aid to Families with Dependent Children (AFDC) (Nord & Beaulieu, 1997, p. 4).

Although it is true that recent job growth has been strong, the mismatch between where the jobs are and where the workers live continues. In fact, in the 586 nonmetro counties with high welfare dependency, 60 percent were also high unemployment counties with rates over 20 percent for the last several decades (Cook & Dagata, 1997, p. 44). In these counties, employment growth has often been an elusive goal.<sup>3</sup> As a result, spatial inequalities in the distribution of job opportunities place rural welfare recipients and rural communities at a disadvantage in meeting federal mandates.

*Assumption 3. The jobs available to welfare recipients will pay enough for them to no longer need any further public assistance.*

Rural and urban areas have different labor market structures and have had different experiences with the restructuring of the American economy. Traditional rural employment sectors -- agriculture, mining, forest products, routine manufacturing -- have been suffering continuous declines, especially during the 1980s. Perhaps more critically, the rural labor market is dominated by peripheral industries in both manufacturing and services, a situation which has been compounded by economic restructuring. For example, in 1996, 23.3 percent of all rural jobs were in the service sector, whereas only 16.3 percent were in manufacturing (Economic Research Service, 1998). The shift to "complex" manufacturing has favored urban places and workers, and the automation of "routine" manufacturing processes has reduced the employment of these more common rural firms. For example, from 1969 to 1992, the proportion of rural employment in manufacturing dropped from 20.4 to 16.9 percent (Parker, 1995).

Transformations such as these mean that the jobs available to rural workers are not the same as those open to urban areas, contributing to spatially-based inequalities in earnings potential and exacerbating the already lower wages in rural areas. In 1995, for example, 26.3 percent of rural residents lived "in households with incomes between one and two

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<sup>3</sup> While some have argued for "moving people to the jobs," this approach severs already economically vulnerable families from their social networks, which often serve as their safety net, especially in times of crisis.

times the poverty line, compared with 18.2 percent in urban areas” (Nord, 1997a, p. 31). Workers in rural areas are also more likely than those in urban areas to be near poor (200 percent of the poverty line), 20 percent compared to 14 percent (Dagata, 1997, p. 35). In the last four months of 1995, 12 percent of nonmetro workers earned between \$4.25 and \$5.15 an hour, compared to only 7 percent of metro workers (Parker & Whitener, 1997, p. 23). As Cook and Dagata (1997, p. 45-46) report, “In 1995, nearly 60 percent of rural poor families had either a head or spouse that worked some during the year, and 24 percent of rural poor families had either a head or spouse that worked full-time year-round.”

Spatial differences in earnings are even more marked in the rural South. In 1993, the South had the largest rural/urban difference in median incomes “with the rural median about 24 percent below the urban median” (Nord, 1997b, p. 26). The high concentration of workers in low-wage jobs, large minority populations, and high levels of unemployment have produced high welfare dependency for rural communities in the South. For example, in 1995, of the 580 nonmetro counties in the U.S. placing in the top quartile for AFDC dependence, 347 or 60 percent were rural counties in the South (Nord, 1998b).<sup>4</sup> Indeed, the highest proportion of low-income workers are located in seven southern states. Only four states with high proportions of these workers are located outside the region.

Earnings inequalities also vary by gender. In welfare discussions and debates, we often use the faceless terminology of “adult welfare recipients,” omitting that the majority of these adults are women. Also ignored is the fact that women do not face the same labor market and earning opportunities as men, either in urban or rural areas. For example, nationwide in 1995, women earned only 75.5 percent of men’s median weekly earnings (Fair Pay Clearinghouse, 1997).<sup>5</sup> Not only are rural wages lower than urban wages, but the earnings of rural women are lower than those of rural men. This combination, being a woman in a rural area, means that rural women take a double hit. For example, in 1993, rural women made 75 percent of what urban women earned, 69 percent of what

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<sup>4</sup> Cited in Zimmerman and Garkovich, 1998.

<sup>5</sup> This report is available online at <http://www2.dol.gov/dol/wb/public/programs/lw&occ.htm>.



rural men earned, and 54 percent of what urban men earned (Rogers, 1997, p. 11).

The key to a successful transition to independence from public assistance is not merely a job. Rather, the key lay in earnings sufficient to enable a household to meet its monthly costs, a living wage. Interest in a living wage goes back to the early decades of this century, when social scientists tried to determine the daily living costs for a family in order to set a minimum wage. While supporting “persons who cannot maintain themselves is an unquestioned social obligation,” it was argued assuming that a minimum wage would “obviate the necessity of public charity” (Armstrong, 1932, p. xiii). Today’s living wage discussions focus on the failure of the current minimum wage to provide an income adequate enough for a family to live above poverty (Bernstein, 1998).<sup>6</sup>

One way to determine whether earnings from employment will be sufficient is to calculate the costs of items and services typically required by a family to maintain independence without any assistance. This approach has been widely used, in some cases to assess the level at which a local living wage should be set (Funk, 1994; Kahler & Hoffer, 1997; Kentucky Youth Advocates, 1997a; Pearce, 1997, 1998; Steuernagle, 1995, 1998).<sup>7</sup> For example, in Minnesota, such an approach informed legislation requiring companies seeking state financial assistance to pay a living wage to their workers. This approach also provides a method which avoids issues of different patterns of consumption and household expenditures. In other words, assuming no assistance means that all items must be purchased, making their cost very relevant. Furthermore, while some individual families may have access to informal networks and support, this cannot be assumed to exist for all families. Still, even if informal networks of support do exist, they also assume reciprocity, which can further drain the resources of low-income families.

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<sup>6</sup> For a list of city and state legislatures that have either passed or are considering living wage legislation, see the web site for the Association of Community Organizations for Reform Now (ACORN) at <http://www.epionline.org/living/htm>.

<sup>7</sup> For a different approach, see Renwick and Bergmann (1995).

## CALCULATING A RURAL COST OF LIVING

What is a monthly cost of living? To determine a monthly cost of living, costs associated with common items and services are assessed. In this, most often attempts are *not* made to replicate a middle-class lifestyle. Rather, previous work on determining the cost of living typically includes only necessities such as shelter (housing), utilities, food, child care, transportation, and basic household and personal care items.

While a monthly cost of living is most often calculated for urban areas, less common are estimates for rural places. When they are calculated, these estimates assume that all rural costs are lower than in urban areas. Recent moves to adjust the poverty threshold to account for apparent differences in costs of living in rural and urban areas illustrate this approach. The National Academy of Science, for instance, recommended adjusting for rural/urban differences in the cost of housing (Citro & Michael, 1995). However, as Nord points out, while housing costs are on average considerably lower in rural areas, there is also less variation and lower quality housing (Nord, 1998a). In reality, while housing does tend to cost less in rural areas, other costs are actually higher. For example, Kaufman and Lutz (1997) found that the cost of food is higher in rural areas.<sup>8</sup> This is due to increased transportation costs for the goods and, because of their smaller size and number, rural retailers not being able to gain cost advantages from high volume wholesale purchases. Transportation costs for individuals are also higher in rural areas, where distances between home and work, child care, and groceries are larger and public transport systems are a rarity. In many rural areas the only way to get around is by either owning a vehicle or sharing a ride with someone who does. As the Expert Committee on Family Budget Revisions (1980) put it, "transportation expenditures trade off in predictable and plausible ways with shelter expenditures and that the total expenditure, taking the two of them together, is not importantly related to location either by city size or region" (p. 88).<sup>9</sup> There is also evidence that

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<sup>8</sup> A copy of the 1997 Kaufman and Lutz article is available on-line at <http://www.econ.ag.gov/epubs/pdf/foodrevw/foodrevw.htm>.

<sup>9</sup> Cited in Nord (1998a).

other costs are higher in rural areas. Rogers (1980), for example, found that both health care and life insurance were higher in rural areas than in urban areas.<sup>10</sup>

What, then, would it take for an employed single 22-year-old mother with two children, ages 4 and 6, to make ends meet in rural Kentucky without any assistance? In contrast to previous approaches, which rely primarily on secondary data sources, to determine the monthly costs in rural Kentucky local costs for the majority of items were obtained for seven rural counties. Representing the diversity within the state, three counties are in eastern Kentucky, two are in the central region, and one is in the far western part of the state. Of the seven, four are in the Appalachian region and two are adjacent to a metropolitan area. Appendix A presents an overview of selected characteristics of these counties. For the majority of items, actual costs were obtained through local contacts in each of the seven counties. In the case of the few remaining items, reasonable estimates were determined.

The purpose of generating this estimate of a minimum monthly budget is to examine the minimum costs associated with independence from assistance. Consequently, three topics are not included, but require some mention. First is the informal economy. McInnis-Dittrich (1995), for example, found in her small sample in Kentucky that all of the women she interviewed relied on the informal economy. Sources of income from the informal economy included housework for others, consignment quilting, gardening, child or elder care, and yard sales. However, it is very difficult to assess the extent or overall contributions such participation yields. Income thus generated is small and most often used to simply meet immediate bills. Moreover, support from the informal economy in the form of favors comes with the obligation of mutual reciprocity, nullifying the net contribution such help brings.

In addition to the informal economy, some items obtainable from the formal economy are not included in our monthly budget model. Our model focuses only on the minimum requirements. Therefore, costs associated with items such as alcohol or tobacco are not included. Expenditures for long distance phone service, gifts for birthdays or holidays, toys for the children, entertainment such as cable television,

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<sup>10</sup> Cited in Nord (1998a).

video rentals, magazines, or newspapers, though part of most household expenditures, are also not included. Because most low-income households do not have health insurance, this cost is also not included. However, since people still become sick and injured regardless of their insurance status, direct out-of-pocket health costs are included in the model.

What are other sources of family income not included in this estimate? Since national research indicates that alimony is rarely awarded in a divorce and that child support is difficult to collect, these potential sources of income are not included (Scoon-Rogers & Lester, 1991). Since accessing the Earned Income Tax Credit (EITC) is not universal, there is also no adjustment for its use. Originally established in 1975 to lessen the burden of the Social Security tax on those with low incomes, today many see the Earned Income Tax Credit (EITC) as a reward incentive for those who are employed but still earning low incomes (Ozawa, 1995). The overall amount of the EITC varies by income level and by the number of children in the household. It is also available for those without children and does not affect eligibility for other means-tested programs. Eligible families can use the EITC to lower their federal tax bill or, if the EITC exceeds their taxes, they receive it in the form of a refund. However, as with all tax refunds, this money arrives in a single payment once a year and has generally not been available as a monthly income source during the year. Finally, not all of those who are eligible apply for EITC, further complicating its potential impact on gross family income.<sup>11</sup>

Given these caveats, what are the minimum monthly costs for an employed single mother with two children living in rural Kentucky? Relying predominantly on actual local costs, our estimated minimum monthly cost of living is \$1,768.04 or \$21,216.52 a year. This includes the earnings needed to pay Social Security (OASDI) (at 6.2%) and

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<sup>11</sup> In the case of our estimated model, assuming our hypothetical mother of two does not have any nontaxable income, taxable scholarship or fellowship grant, is earning enough to meet the expenses identified in our model, as well as pay her Social Security (OASDI) and Medicare taxes, she would be eligible to receive \$1,698 through the earned income tax program. However, this amount is only slightly higher (by only \$190.72) than what our hypothetical single mother would have paid in OASDI and Medicare, and this still does not include deductions for local, state, or federal income taxes.

Medicare (at 1.45%), which are deducted regardless of a person's income. Appendix B provides detailed information on each of the items included in the hypothetical budget. This means that meeting a minimum monthly budget would require an hourly wage of \$10.61 an hour, if our single mother worked 2,000 hours a year, the standard for full-time employment. A breakdown of these costs are presented in Table 1.

## IMPLICATIONS

According to the *First Annual Report to Congress* on TANF (Temporary Assistance for Needy Families), 70 percent of all TANF cases contain only one adult and 75 percent contain two children with an average age of 7.7 years. Because only 7 percent of all TANF families contain two or more adults, this analysis has focused on a single mother with two children, which represents the majority of cash assistance families (DHHS, 1998). Given that the majority of recipient households are single parent families, it is clear that even the best prepared single mothers, especially those in rural areas, will have difficulty earning enough to meet their monthly cost of living given their average weekly earnings. Even if a single mother worked 2,000 hours a year, the standard for full-time employment, at the current minimum wage of \$5.15 an hour, she would earn only \$10,300 a year before taxes. This is \$3,000 below the 1997 poverty guidelines for a family of three (\$13,300) and less than half what is necessary to meet the basic monthly budget. This means that to meet the minimum cost of living in rural Kentucky for a family of three, a single working mother would need to earn an additional \$5.46 an hour, or \$10,916.52 more a year. In other words, our single mother would need another full-time job at the current minimum wage plus some additional hours to meet the minimum cost of living without relying on assistance.

Since it is not likely that our single mother will be able to work 80+ hours a week at minimum wage in order to meet her monthly expenses, what is the likelihood that our single mother living in a rural area will be able to find employment at a higher wage level, one capable of meeting her monthly costs of living? Not likely when one considers that according to the 1996 Current Population Survey, rural women 16-24 years of age earned an average of \$5.55 an hour.

Under the welfare reform legislation, meeting the new work requirements means that many current recipients will be relying upon

**Table 1. The estimated monthly cost of living for a family of three in rural Kentucky.**

<b>Item</b>	<b>Monthly Cost</b>
Housing	\$358.29
Food	\$363.64
Child care, 4-year-old	\$225.71
Household and personal care items, and clothing	\$196.83
Utilities (water, electricity, overage)	\$124.28
Child care, 6-year-old	\$110.00
Car insurance	\$68.61
Gasoline	\$65.00
Health costs	\$59.08
Car care	\$50.25
Phone	\$20.71
<b>Total costs per month</b>	<b>\$1,642.40</b>
<b>Total costs per year</b>	<b>\$19,708.80</b>
Medicare (1.45%) and Social Security taxes (6.2%)	\$1,507.72
Monthly earnings needed to meet cost of living and taxes	\$1,768.04
Yearly earnings needed to meet cost of living and taxes	\$21,216.52
<b>Hourly wage needed (including SSI and Medicare)</b>	<b>\$10.61</b>

minimum-wage jobs with very limited opportunities to increase their education or training. However, as illustrated in Figure 1, the earnings from a minimum-wage job are not sufficient to bring a family of three above poverty, and not enough to meet this minimum monthly cost of living. In other words, the minimum wage is not a living wage. While in the 1960s, working at the minimum wage resulted in an annual income slightly above the poverty line (Whitner & Parker, 1997, p. 27), today, working at the current minimum wage no longer results in an income above poverty. Working at \$5.15 an hour for an average of 2000 hours during the year, a full-time job, would earn an income less than the U.S. Department of Health and Human Services 1997 poverty guidelines for a family of two (\$10,610), substantially below that for a family of three (\$13,330), and well below that for a family of four (\$16,050) (see also; Whitner & Parker, 1997, p. 26-28). In other words, the minimum wage is no longer a livable wage--it is no longer adequate to meet a single-earner family's monthly costs of living without any assistance.

*Assumption 4. Shortfalls between wages and the costs of living can be absorbed by private and voluntary sources within communities.*

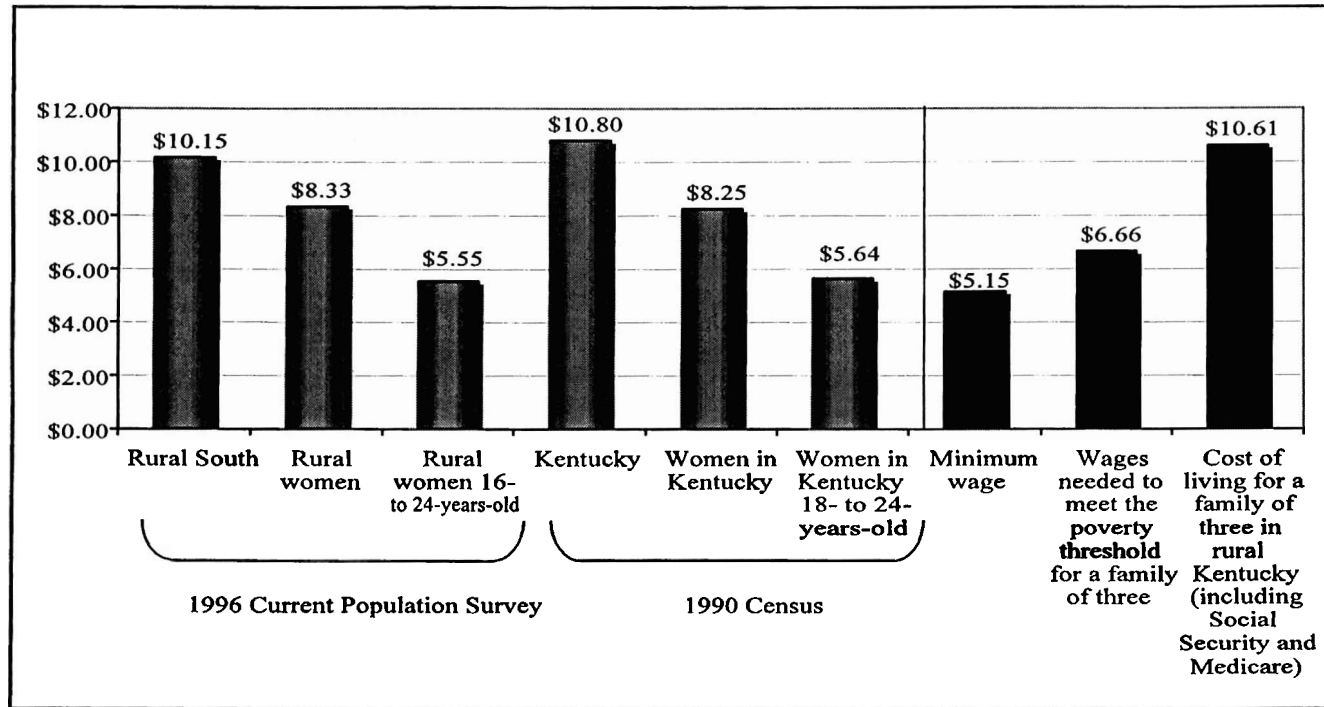
During the debate over welfare reform and after its passage, when concerns were raised about what would happen to welfare recipients displaced from the social safety net, much was said about the need for the private nongovernmental sector -- churches and voluntary associations -- to step into the gap. As Nicholas Lemann, a correspondent for *The Atlantic Monthly*, noted

It is a very seductive argument: Let charities step in and take over where big government has failed....[But] even the mammoth Ford Foundation with just under \$7 billion in assets, couldn't possibly afford to provide day care to all the children whose mothers' benefits will be terminated under the new welfare law. (*Newsweek*, April 28, 1997)

Does the private sector, in particular, charitable associations, have the capacity to meet an increased demand for their services, especially in rural areas?

Rural communities have fewer private and voluntary association resources to supplement public support programs than urban places have

**Figure 1. Comparing average hourly earnings and wages.**





available.<sup>12</sup> This difference means that the assumption that private and voluntary associations will be able to meet additional demands for services may not be true for rural communities. Emerging analyses suggest food pantries and other charitable organizations are facing growing demands for their services (Second Harvest, 1997). Most of these have focused on urban charitable organizations, perhaps because these are most accessible to the media. But is there any doubt the far smaller number of rural voluntary agencies are in the same situation, especially given the lower wage rates in rural communities?

## CONCLUSIONS

Welfare reform has been built upon the presumption that moving adults into employment will eliminate the need for cash assistance. Yet the prospects of this belief becoming reality hinge on the accuracy of several assumptions. Regional and spatial inequalities in the characteristics of the welfare population and the labor market indicate that adults, especially single mothers in rural areas of the South, will face great difficulties in making the welfare-to-work transition. The South, and the rural South in particular, has a disproportionate share of the nation's poor and the majority of the high-welfare-dependency nonmetropolitan counties. Educational attainment and work experience among welfare recipients is below that of the currently employed, placing these new job seekers at a competitive disadvantage. Moreover, since the rural South has also lagged the nation in employment growth and has substantial levels of unemployment and underemployment, those seeking to make the welfare-to-work transition will find a constricted labor market for persons with their skills and employment experience.

Even if all welfare recipients can make the transition to full-time employment, this research demonstrates that those in the rural South, especially single mothers, are not likely to enter a labor market with jobs that will enable them to earn enough to meet their families' minimum

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<sup>12</sup>For example, preliminary analyses using data from the National Center on Charitable Statistics IRS records database indicates that in circa 1996, metro counties in Kentucky had twice the average number of nonprofit organizations per 10,000 population as did nonmetropolitan counties (Zimmerman, 1998).

needs. Perhaps the most critical assumption underlying welfare reform is that the labor market provides job opportunities with wages sufficient to meet the monthly costs of living. This research indicates that in rural Kentucky, a minimum monthly budget would require a wage of \$10.61 an hour, a wage rarely associated with the kinds of jobs available in rural labor markets to adults with limited education, limited work experience, or limited work skills.

What then will happen to those individuals employed full-time but who still do not earn enough to meet their families' monthly costs of living? How do they close the gap between earnings and monthly costs? Though this is an issue better addressed in a separate study, we can speculate on the personal and family consequences of this conundrum drawing on prior case studies and anecdotal reports already appearing in the media. In Kentucky, there is evidence that single mothers are terminating their effort to enhance their education and work skills. Community colleges in Appalachia, an area of persistent poverty and welfare dependence, are reporting small declines in enrollments. Newspapers have featured single mothers quitting school because of the difficulty of juggling classes, child care, and work mandates (see, for example, *Lexington Herald Leader*, 1998a, 1998b). Such decisions may well lock these individuals into a work path unlikely to lead to financial independence.

Moreover, in the face of insufficient cash to meet monthly household costs, single mothers will face difficult choices in how to spend the income they do have. For example, child care is a major expense, but one that can be forgone by expecting older children to care for younger siblings. Or the single mother may begin juggling bills, delaying paying some in order to pay others. Unfortunately, this often leads to an unending cycle of late charges and reconnect fees on top of regular monthly expenses, further deepening the cash flow crisis these families confront.<sup>13</sup>

Finally, the struggles of low-income families to survive the reorganization of the social safety net will likely have policy and program consequences for states. For example, the lack of employment opportunities will be consequential for southern states, given the penalties

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<sup>13</sup> We are indebted to an anonymous reviewer for this insight.

for failure to meet mandated targets on work participation requirements. Moreover, while welfare reform has primarily focused on limiting cash assistance, other programs (such as heating assistance, housing assistance, food stamps for households with children, and medicaid) remain relatively intact. These are categorical programs based on income eligibility, and the demand for these programs is likely to increase, as families find themselves unable to meet their minimum monthly costs through employment. Despite welfare reform then, poverty, especially child poverty and its social, educational and personal consequences, will continue to be a major policy challenge, especially for the South, and for the rural South in particular.

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**Appendix A. Characteristics of the seven sample Kentucky counties.**

Item	Graves	Harrison	Montgomery	Pulaski	Johnson	Morgan	Owsley	Sample Average	Outside KY Metro Areas	State of KY
Total population	33,550	16,248	19,561	49,489	23,248	11,648	5,036	22,683	1,971,385	3,685,296
Total housing units	6,543	6,499	7,759	22,328	9,381	4,562	2,137	8,458	809,404	1,506,845
% total units vacant	14.6	6.2	5.8	15.5	9.7	10.4	13.5	10.8	10.0	8.4
% total that are rental units	19.6	30.3	28.1	20.5	23.6	21.0	21.9	23.6	23.9	27.9
% vacant units for rent	11.6	22.1	35.1	10.9	26.0	21.6	12.4	20.0	8.4	8.2
% mobile homes or trailers	26.8	11.1	13.9	20.9	22.7	26.9	23.0	20.8	18.9	13.2
% mobile homes or trailers renter occupied	20.9	22.3	18.5	18.0	18.2	15.9	13.0	18.1	18.6	18.9
Median gross rent	\$262	\$274	\$285	\$263	\$276	\$223	\$140	\$246.14	\$197.00	\$319.00
Median household income (\$)	\$20,647	\$21,787	\$20,025	\$18,198	\$15,782	\$13,229	\$8,595	\$16,895	\$18,888.00	\$22,534.00

*Zimmerman and Garkovich*

**Appendix A. Characteristics of the seven sample Kentucky counties (cont).**

Item	Graves	Harrison	Montgomery	Pulaski	Johnson	Morgan	Owsley	Sample Average	Outside KY Metro Areas	State of KY
Median rent is 30%+ of hh income	34.9	35.0	44.3	36.4	42.3	43.5	52.2	41.2	-	38.1
% hh with no phones	8.4	10.6	14.4	13.0	12.4	10.7	27.8	13.9	-	10.2
% housing units built after 1980	16.1	17.6	20.1	24.1	21.2	22.8	18.0	20.0	-	20.0
% hh with no cars	9.4	10.1	11.2	11.5	15.4	15.4	16.0	12.7	-	11.5
% relying car, truck or van to get to work	93.2	92.9	91.9	91.3	93.3	91.4	91.7	92.2	94.4	93.8
% working outside county	30.0	33.3	31.1	10.1	27.1	28.2	32.5	27.5	-	25.9
Mean travel time to work (min.)	20.4	23.0	20.7	19.1	23.4	25.1	22.8	22.1	21.4	20.7
% traveling 45 min.+ to work	56.5	57.2	56.1	66.9	63.6	72.7	71.9	63.6	60.9	9.6
Average weekly wages	\$410.00	\$403.00	\$318.00	\$344.00	\$357.00	\$344.00	\$318.00	\$356.29	-	\$432.00

Source: 1990 Census of Population and Housing

## Appendix B

For the sample of seven rural counties, local data were obtained on the costs associated with items such as housing, utilities, child care, gasoline, and car insurance. In a very few instances where local data were not available, reasonable estimates or, more commonly, individual data from the 1994-5 Consumer Expenditure Survey for the southern region, minimum wage-income group were used.

### **Housing**

Housing costs were calculated using the "fair market value" cost used in the calculation of rent subsidies for Section 8 housing. It includes both the median contract gross rent in the county as well as a utility allowance which ranges between \$92 and \$108 for these counties. Information was provided by the local Housing Authority, local HUD office, and/or local Social Services Office. Using this method, rent estimates varied from \$325 to \$400 a month in each of the seven sample counties, resulting in an average rent cost of \$358.29 a month.<sup>14</sup>

### **Utilities and Phone Service**

Information on general utilities was gathered for each county for a "standard housing unit and household composition" (i.e., 1,000 kwh of electricity for a 900 sq. ft dwelling unit and 4,000 gallons of water for a family of three). Note that this estimated level of electricity and water usage is very low and would require considerable effort at minimizing use to achieve. In the "fair market value" rent estimate a utility allowance was included. But, given the characteristics of rural housing and variations in types of heating sources and levels of use, an over-allowance cost of \$30 per month for utilities was added to the monthly cost of living estimates. The cost information was provided by local electric and water companies, as well as local Chambers of Commerce. To estimate the cost of phone service, the cost of only the most basic package for local telephone

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<sup>14</sup> HUD Fair Market Rent data are available on-line at <http://www.huduser.org/publications/publicassist/assisted/fmr97.html>.



service was used. This did not include access to, or use of, long distance calling. The information was provided by the local Chambers of Commerce.

### **Transportation**

Since access to reliable transportation is essential for successful entry into the job market and retention of employment, it was important to determine an estimated cost for owning and using a personal vehicle. Information from the National Personal Transportation Survey (NPTS), as well as local gasoline prices and auto insurance estimates based on our hypothetical case were obtained (Department of Transportation, 1997).<sup>15</sup> According the NPTS, the average model year of a vehicle in the United States is 1987, and on average 11,826 miles are driven each year. The NPTS also estimates that trips to and from work constitute only the third most reported use of a car. Estimates for the monthly cost of gasoline were calculated using local gas prices and the average annual miles per year. Since no reliable local estimates were available to estimate car care expenses, we used the monthly average from the 1994-5 Consumer Expenditure Survey for the South for the minimum wage-income group.<sup>16</sup>

While anecdotally the incidence of car insurance among low-income groups tends to be lower than that for other groups, the assumption behind calculating this model is complete self-sufficiency, without assistance and without being illegal. Therefore, the cost of minimal auto insurance had to be included in the estimates. Based on the average vehicle age from the NPTS, estimated travel to work based on the 1990 Census of Population and Housing, auto insurance estimates were obtained from a national insurance company.<sup>17</sup> Since coverage for uninsured or underinsured drivers is not compulsory in Kentucky, and since costs varied depending on whether the individual lived inside or

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<sup>15</sup> The 1997 Federal Transportation Administration report is available on-line at <http://www.fta.dot.gov/fta/library/program/rurlstat/rurlstat.html>.

<sup>16</sup> Consumer expenditure data are available on-line at <http://stats.bls.gov/csxhome.htm>.

<sup>17</sup> Census and other data are available through several web sites including <http://govinfo.kerr.orst.edu> and <http://venus.census.gov/cdrom/lookup>.

outside of town, the average cost across these variables was calculated. Using this method, the costs for car insurance across the seven sample counties ranged from \$55 to \$84 a month. Combined with gasoline and repair and maintenance costs, this resulted in an estimated combined cost of \$174.33 per month for transportation.

## **Food**

To estimate monthly food costs, the USDA Food and Consumer Service's "Cost of Food at Home Estimated for Food Plans at Four Cost Levels, September 1997, U.S. Average"<sup>18</sup> was consulted. Based on these data, monthly food costs were estimated for a 22 year old mother of two children, 4 and 6 years old, adjusted by 5 percent for family size as indicated, and further adjusted by 4 percent for higher costs in rural areas (Kaufman & Lutz, 1997). Following this procedure, the estimated average monthly food costs were calculated to be \$363.64 for our hypothetical mother of two children.

## **Child Care**

Since studies suggest that parents utilizing informal arrangements often have difficulty maintaining reliability of care, the estimate of monthly costs presumes a formal child care arrangement. The model uses actual cost figures reported by child care providers listed in the local telephone books or estimates provided by either the County Extension Office or the Chamber of Commerce. Across the seven sample counties, child care for younger children was consistently higher than that for older children. For a four-year-old child, costs ranged from \$200 to \$260 a month. For a six-year-old child, costs had greater variability from a low of \$60 to a high of \$150 a month. In other words, on average, child care for two children of these ages equaled \$335.71 a month or 20.4 percent of monthly expenses.

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<sup>18</sup> This information is available at <http://www.usda.gov/fcs/cnpp/using3.htm>.

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### **Health Care**

While health care costs are generally not incurred regularly each month, an allotment for this expense was included in the monthly budget. To estimate the average monthly cost of health care, the average monthly expenditures from the 1994-5 Consumer Expenditure Survey, Southern Region, minimum-wage income group was used. Within the health care category, only those expenditures for medical services, supplies, and pharmaceuticals were included. Since households with low incomes often do not have health insurance and insurance is not required to obtain health care services, these costs were not included in the model. Following this procedure, on average households spend \$59.08 a month on health care.

### **Household and Personal Care Items, and Clothing**

A collection of essential purchases or services for family and household operation were included in the model. For example, laundry costs at a coin-operated facility would include five washer and dryer loads per week. Other items included paper products, household cleaning supplies, and personal care items. To estimate the cost of clothing and footwear, the average monthly expenditures from the 1994-5 Consumer Expenditure Survey, Southern Region, minimum wage-income group was used. Using this method, a single estimate for this category of expenditures of \$196.83 per month was calculated.